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SUBJECT: GALATAPORT PRIVATIZATION FOUNDERS

REF: A. ANKARA 455

1B. 2005 ISTANBUL 1716

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This message was coordinated with Embassy Ankara.

11. (SBU) Summary: The politically troubled privatization of Istanbul's Galataport (ref b) came to an ignominious close in late January as the GOT formally cancelled the tender granting a 49-year lease on the site to a consortium including Israel's Ofer Group. The coup de grace was delivered by Deputy Prime Minister Sener, following a January 13 decision by Turkey's Council of State (Danistay) to block Ministry of Culture approval of zoning changes in the site. In contrast to the Danistay's Tupras decision (ref B), which sparked consternation in Istanbul business circles, there was little surprise regarding Galataport, as the project had become a political football between and among various factions in the AKP government and the opposition, and as most believed it had been badly mishandled and should be redone. Still unclear is the related fate of the block sale of 14 percent of Tupras' shares to the Ofer Group, which added to the original controversy. End Summary.

12. (SBU) As Ref B related, the Galataport sale has been controversial since its announcement in October. Critics faulted the government for not clearly demarcating responsibility for the project (authority was shared among the Maritime Undersecretariat, the Privatization Administration, and the State Planning Office) and for failing to establish either clear payment principles or clear planning guidelines. As a result, Tankut Gundogar, board member of FIBA Holding and former Chairman of the city's zoning commission told us, bidders offered varied and not easily comparable amounts for the property on the basis of different conceptions of what they would be able to do with it. Subsequent attempts to streamline the process of securing zoning and other approvals for the winning bidder thus sparked criticism and ultimately legal action to stop the sale. Indeed, the Istanbul city government, itself in the hands of the AK party, went to court to block the tender, arguing that such planning provisions should have been completed before the tender was announced. Ultimately, however, the Danistay decided against the project on the basis of another suit filed by the Istanbul City Planners Chamber.

13. (SBU) In Ankara, the project had become a political football, with the opposition People's Republican Party (CHP) and portions of the press attacking the government's handling of the tendering process, and linking the Ofer Group's winning the bid to a meeting that Prime Minister Erdogan had granted to the Israeli businessman. In a rare public display of differences within the AKP government, Deputy Prime Minister Sener had strongly implied his opposition to the transaction. In the end, according to press reports, it was Sener who delivered the coup de grace, refusing to approve the privatization. There was also an anti-semitic undercurrent that stoked opposition to the deal.

14. (SBU) Gundogar, who still sits on the Istanbul city council and now heads its EU/International Relations committee (a relatively lighter burden, he quipped), believes prospects for the project are more positive now, and said that the city is in the process of withdrawing its suit against it. In exchange, it will play a lead role in developing the plans for the site, which will be the first stage of a three stage process. After this consultation among the city, the Ministry of Culture and Tourism, and the Privatization Administration, a vision for the site will be established in line with the decided zoning plan. At that point, bidders will be invited to submit bids to realize the project. The tender will utilize a "transfer of operating rights" model rather than the build-operate-transfer model used in the initial offering. If the initial process had not been rushed, Gundogar opined, the resulting chaos could have been avoided. But he noted that the government has learned its lesson, and moved to correct earlier errors: putting planning first, giving responsibility for the privatization to the Privatization Administration, which obviously has more expertise in the matter than its maritime counterpart, and

establishing clear and consistent payment principles (50 percent down and two annual payments thereafter).

15. (SBU) Gundogar added that he expects the number of bids to exceed those registered in the initial offering, given the current boom in Istanbul real estate, which has resulted in a doubling of property values in the last two years. FIBA Holding, which finished second the first time around, will likely participate, as will other major real estate developers here. Not clear are the plans of the winners of the initial tender, though Global Holding Chairman Mehmet Kutman has been vocal in noting the losses his company suffered as a result of the reversal.

16. (SBU) Comment: The business community was not surprised to see the star-crossed Galataport deal cancelled, whereas business people were much more concerned about the recent Danistay ruling against the already-consummated Tupras privatization (ref A). Neither case is encouraging for future bidders on privatizations, of course, who may wonder if the tender they are bidding on will really go through.

17. (SBU) Comment continued: Gundogar's optimism about the project itself going forward is echoed by others, including Abdurraman Ariman, former Secretary General to the Foreign Investors' Association who now heads a private investment consulting firm and also works as an advisor to the Istanbul Municipality. He also shared with us a wide range of conceptual projects the city has developed, including plans for a large cruise ship terminal in Zeytinburnu in the Sea of Marmara that would provide security above and beyond what is possible at Galataport. How that vision will impact the Galataport project, however, remains to be seen. End Comment.
JONES